

FOREST AREA COMMUNITY SCHOOLS

FIFE LAKE, MICHIGAN

JUNE 30, 2006

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2006

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CERTIFIED PUBLIC ACCOUNTANTS

August 9, 2006

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Forest Area Community Schools
Fife Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Forest Area Community Schools* (the "School District") as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Forest Area Community Schools as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2006, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance

with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages iii – viii and budgetary comparison information on page 22, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the School District. The combining non-major fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

This section of the Forest Area Community Schools annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2006.

Financial Highlights

Total General Fund revenues were \$7,172,842. Expenditures exceeded revenues by \$29,820.

The total cost of basic programs rose by 6.4 percent to \$4,610,121.

Enrollment in the District increased by 11 students to 878 students.

Outlays for capital assets totaled \$43,509 and consisted primarily of a bus purchase.

The District's liability for accrued compensated absences decreased by \$47,608 over the prior year. Total long-term debt retired during the year amounted to \$266,042.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information and combining financial statements of non-major funds. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements*. These statements provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the District-wide statements.
 - The *governmental funds statements* tell how basic services such as regular and added needs programs were financed in the *short term* as well as what remains for future spending.
 - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information and combining statements that further explains and supports the financial statements, including a comparison of the District's budget for the year.

FOREST AREA COMMUNITY SCHOOLS
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

District-Wide Statements

The District-wide statements report information about the district as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are reported as *governmental activities*. The District's basic services are included here, such as regular and added needs education, administration, transportation, food services and athletics. Property taxes, State formula aid and Federal grants finance most of these activities.

The District has no activities meeting the definition of *business-type activities* as interpreted by the Michigan Department of Education.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Education establishes other funds to control and manage money for particular purposes, i.e., the Athletics Fund.

The District has two kinds of funds:

Governmental funds – Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

Fiduciary funds – The District is the trustee, or *fiduciary*, for assets that – because of a trust arrangement- can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Summary of Net Assets

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Assets		
Current Assets	\$ 1,869,542	\$ 1,931,934
Capital Assets	7,523,130	7,497,696
Less: Accumulated Depreciation	<u>(4,200,324)</u>	<u>(3,947,730)</u>
Capital Assets, Net Book Value	<u>3,322,806</u>	<u>3,549,966</u>
Total Assets	<u><u>\$ 5,192,348</u></u>	<u><u>\$ 5,481,900</u></u>
Liabilities		
Current Liabilities	\$ 1,212,858	\$ 1,142,159
Long-Term Liabilities	<u>1,515,819</u>	<u>1,862,300</u>
Total Liabilities	<u>2,728,677</u>	<u>3,004,459</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,932,855	1,829,056
Restricted	55,661	209,909
Unrestricted	<u>475,155</u>	<u>438,476</u>
Total Net Assets	<u>2,463,671</u>	<u>2,477,441</u>
Total Liabilities and Net Assets	<u><u>\$ 5,192,348</u></u>	<u><u>\$ 5,481,900</u></u>

FOREST AREA COMMUNITY SCHOOLS
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

The analysis above focuses on the net assets of the district while the change in these net assets is discussed below. The School District's net assets were \$2,463,671 at June 30, 2006, a decrease of \$13,770 over the prior year. Capital assets net of related debt reports the original cost, less depreciation of capital assets minus long term debt used to finance these acquisitions.

Statement of Activities

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Revenues:		
General Revenues:		
Property Taxes	\$ 1,091,759	\$ 967,950
State Sources	5,246,035	5,369,040
Investment Earnings	45,778	20,006
Other	47,797	6,525
Program Revenues:		
Charges for Services	109,852	115,828
Operating Grants and Contributions	<u>1,221,896</u>	<u>915,067</u>
Total Revenues	<u>7,763,117</u>	<u>7,394,416</u>
Expenses:		
Instruction	4,566,537	4,368,300
Support Services	2,310,215	2,153,507
Food Services	372,490	339,077
Athletics	140,145	125,144
Community Services	47,543	42,495
Other	9,694	14,610
Interest on Long Term Debt	74,957	94,081
Depreciation	<u>255,306</u>	<u>245,341</u>
Total Expense	<u>7,776,887</u>	<u>7,382,555</u>
Change in Net Assets	<u><u>\$ (13,770)</u></u>	<u><u>\$ 11,861</u></u>

The cost of all the District's activities this year was \$7,776,887. Some activities were partially funded by those who benefited from the programs in the amount of \$109,852 or by governmental subsidies of \$1,221,896. The difference between these two figures and the total of the District's expenses of \$7,776,887 is \$(6,445,139). This clearly points out the significant reliance placed on State resources of \$5,246,035 and local taxpayers' dollars of \$1,091,759 to fund the District's activities. Consequently, the

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

Board of Education and Administration must annually evaluate the needs of the District to balance with available unrestricted funding.

The school district experienced a decrease of \$13,770 in net assets. This was primarily due to depreciation, capital assets acquisition and decrease in long term debt. The difference between the change in net assets and the change in fund balance is provided in a reconciliation in the financial statements.

Financial Analysis of the District's Funds

As the District completed the year, its governmental funds reported combined fund balance of \$971,775 a 8.6 percent decrease over last year's ending fund balances of \$1,063,182 due to expenditures in capital projects and debt service funds.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget amendments fall into three categories:

- Changes made to account for new revenues sources and the accompanying expenditures.
- Changes in state aid allocations.
- Increases in appropriations to prevent budget overruns.

The district's final budget for the general fund anticipated that expenditures would exceed revenues by \$47,664; the actual results for the year show a \$29,820 deficit.

- Actual revenues approximated budgeted revenues.
- Likewise, actual expenditures approximated budgeted expenditures.

Capital Assets

By the end of 2006, the District had invested \$7,523,130 in a broad range of capital assets, including school buildings, land, athletic facilities, computer and audio-visual equipment and administrative offices. Total depreciation expense for the year was \$255,306 while building improvements, additions to equipment and furniture, and a bus amounted to \$43,509. These investments are summarized as follows:

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Capital Assets	\$ 7,497,696	\$ 43,509	\$ 18,075	\$ 7,523,130
Less: Accumulated Depreciation	(3,947,730)	(255,306)	(2,712)	(4,200,324)
Net Investment Capital Outlay	\$ 3,549,966	\$(211,797)	\$ 15,363	\$ 3,322,806

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The District is plaintiff with other Michigan school districts in a lawsuit against the state, seeking to rectify inequities in the method the State uses to appropriate special education aid to the districts.
- The retirement rate for 2005-2006 was 16.34%. The new retirement rate effective October 1, 2006, will be 17.74%. With continued climate of state funding, rate increases are an on-going concern.
- The District experienced health insurance premium increases for all of our employee groups once again. The rising cost of health insurance continues to be a national problem.
- The District's preliminary student count for the 2006-2007 school year, the basis on which foundation grants are paid by the State to the District, is up from the fiscal year 2005-2006 student count.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager's Office, 7741 Shippy Rd, Fife Lake, Michigan 49633.

FOREST AREA COMMUNITY SCHOOLS

FIFE LAKE, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 305
Due from Other Governments	1,031,864
Inventory	6,367
Investments	<u>831,006</u>
Total Current Assets	1,869,542
<u>NON CURRENT ASSETS</u>	
Capital Assets, Net of Accumulated Depreciation	<u>3,322,806</u>
TOTAL ASSETS	<u><u>\$ 5,192,348</u></u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 73,414
Due to Other Governments	12,913
State Aid Note Payable	126,687
Salaries Payable and Related Expenses	669,753
Accrued Interest Payable	16,221
Deferred Revenue	15,000
Current Portion of Long-Term Liabilities	<u>298,870</u>
Total Current Liabilities	1,212,858
<u>Non Current Portion of Long-Term Liabilities</u>	<u>1,515,819</u>
Total Liabilities	<u>2,728,677</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	1,932,855
Restricted for Debt Service	55,661
Unrestricted	<u>475,155</u>
Total Net Assets	<u>2,463,671</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,192,348</u></u>

The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS

FIFE LAKE, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAM	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATION GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction	\$ 4,566,537	\$ 5,360	\$ 880,082	\$ (3,681,095)
Supporting Services	2,310,215	0	69,139	(2,241,076)
Food Service	372,490	91,438	272,675	(8,377)
Athletic	140,145	13,054	0	(127,091)
Community Services	47,543	0	0	(47,543)
Other	9,694	0	0	(9,694)
Interest on Long-Term Debt	74,957	0	0	(74,957)
Depreciation-Unallocated	255,306	0	0	(255,306)
Total governmental activities	\$ 7,776,887	\$ 109,852	\$ 1,221,896	(6,445,139)
<u>GENERAL REVENUES</u>				
				883,675
				208,084
				5,246,035
				45,778
				47,797
Total General Revenues				6,431,369
Change in Net Assets				(13,770)
NET ASSETS - Beginning of Year				2,477,441
NET ASSETS - End of Year				\$ 2,463,671

The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Other Non Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash	\$ 215	\$ 90	\$ 305
Due from Other Governments	1,031,864	0	1,031,864
Due from Other Funds	13,554	315	13,869
Inventory	0	6,367	6,367
Investments	659,749	171,257	831,006
 TOTAL ASSETS	 \$ 1,705,382	 \$ 178,029	 \$ 1,883,411
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable, Salaries Payable and Related Expenses	\$ 743,167	\$ 0	\$ 743,167
Deferred Revenue	15,000	0	15,000
Due to Other Governments	12,913	0	12,913
Due to Other Funds	315	13,554	13,869
State Aid Note Payable	126,687	0	126,687
 Total Liabilities	 898,082	 13,554	 911,636
<u>FUND BALANCES</u>			
Reserved for Inventory	0	6,367	6,367
Reserved for Debt Retirement	0	71,882	71,882
Unreserved, Designated for, Reported in			
Special Revenue Fund	0	67,369	67,369
Capital Project Fund	0	18,857	18,857
Unreserved, Undesignated	807,300	0	807,300
 Total Fund Balances	 807,300	 164,475	 971,775
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 1,705,382	 \$ 178,029	 \$ 1,883,411

The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2006

Total Governmental Fund Balances		\$ 971,775
Amounts reported for governmental activities in the statement of net are different because:		
Capital assets used in governmental activities are not financial and are not reported in the funds		
The cost of the capital assets is	\$ 7,523,130	
Accumulated depreciation is	<u>(4,200,324)</u>	3,322,806
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Bonds Payable (Net of Deferred Charges)		(1,463,652)
Accumulated Sick Leave		(351,037)
Accrued interest is not included as a liability in government funds; it is recorded when paid		<u>(16,221)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 2,463,671</u></u>

The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$ 938,554	\$ 320,175	\$ 1,258,729
States Sources	5,704,555	25,312	5,729,867
Federal Sources	356,675	256,128	612,803
Other	173,058	0	173,058
Total Revenues	7,172,842	601,615	7,774,457
<u>EXPENDITURES</u>			
Instruction	4,610,121	0	4,610,121
Supporting Services	2,281,469	0	2,281,469
Food Service	0	368,445	368,445
Athletic	0	140,145	140,145
Community Services	47,543	0	47,543
Debt Service			
Principal	120,000	146,042	266,042
Interest	16,438	49,667	66,105
Other	0	645	645
Capital Outlay	0	85,349	85,349
Total Expenditures	7,075,571	790,293	7,865,864
Excess (Deficiency) of Revenues Over Expenditures	97,271	(188,678)	(91,407)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	0	127,121	127,121
Transfers Out	(127,091)	(30)	(127,121)
Total Other Financing Sources (Uses)	(127,091)	127,091	0
Net Change in Fund Balance	(29,820)	(61,587)	(91,407)
<u>FUND BALANCE</u> - Beginning of Year	837,120	226,062	1,063,182
<u>FUND BALANCE</u> - End of Year	\$ 807,300	\$ 164,475	\$ 971,775

The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND

YEAR ENDED JUNE 30, 2006

Net change in Fund Balances Total Governmental Funds	\$ (91,407)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(255,306)
Capital Outlay	43,509

In the statement of activities, only the gain or loss on the sale of capital assets is reported whereas in the governmental funds, the entire proceeds from the sale increases financial resources. (15,364)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	16,153
Accrued Interest Payable - End of Year	(16,221)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	266,042
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Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities	(8,784)
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Accumulated sick leave is reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accumulated sick leave - Beginning of Year	398,645
Accumulated sick leave - End of Year	<u>(351,037)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (13,770)</u></u>
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The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

JUNE 30, 2006

	<u>Agency Funds</u> <u>Student</u> <u>Activities</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 3,357
Investments	20,368
	<hr/>
Total Assets	\$ 23,725
	<hr/>
<u>LIABILITIES</u>	
Due to student groups	\$ 23,725
	<hr/>

The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Forest Area Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

Forest Area Community Schools (the "District") is located in Grand Traverse and Kalkaska Counties with its administrative offices located in Fife Lake, Michigan. The District is governed by the Forest Area Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District provides services to 878 students. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

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The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Other Non-major Funds

The *special refund funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition on construction of major capital facilities.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

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The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Material property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005. For fiscal year ended June 30, 2006, the per pupil foundation allowance was \$6,875 for Forest Area Community Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is

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funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government or the State of Michigan.
- (b) Certificates of deposit issued by financial institutions organized and authorized to operate in Michigan.
- (c) Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Michigan Investment Liquid Asset Fund Plus (MILAF).

The School's deposits and investments are held separately by several of the School District's funds.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

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3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1 and are billed and due December 1. Unpaid taxes become delinquent as of February 14th and are subject to penalties and interest after that date. Uncollected taxes at year-end are not material.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.00
Debt Service Fund - Homestead and Non-homestead	1.80

4. Inventories

Inventories are valued at cost. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings	30-40 years
Improvements, Other than Buildings	5 years
Furniture and Other Equipment	5-20 years
Buses and Vehicles	8 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Accumulated Leave Liability

Employees of the School District accumulate days of compensated sick leave, as specified by the bargaining units' contract. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

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7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The District has opted to apply the provisions of GASB 34 paragraph 146 which allows the amortization of premiums, discounts and bond issuance costs to be applied prospectively for all bonds issued after July 1, 2002.

8. Fund Balance

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of

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Michigan law. State law permits districts to amend budgets during the year. During the year, the budget was amended in a legally permissible manner.

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which good or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations occurred in the following funds:

School Service Fund – Food Service expenditures of \$372,490 exceeded appropriations of \$372,461 by \$29, General Fund expenditures of \$7,075,571 exceeded appropriations of \$7,066,999 by \$8,592.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments - Credit Risk

Investment rate risk. The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

Credit risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

Concentration of credit risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006, none of the government's bank balance of \$3,662 was exposed to custodial credit risk.

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Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end all of the District's investments were uncategorized as to risk.

At year-end, the District had the following investments:

Investments not subject to categorization:

Michigan Investment Liquid Asset Fund \$ 851,374

The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash	\$ 305	\$ 0	\$ 3,357	\$ 3,662
Investments	0	831,006	20,368	851,374
	<u>\$ 305</u>	<u>\$ 831,006</u>	<u>\$ 23,725</u>	<u>\$ 855,036</u>

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate; including the applicable allowances for uncollectible accounts, are as follows:

	General	Nonmajor and Other Funds	Total
Receivables			
Due from Other Governments	<u>\$ 1,031,864</u>	<u>\$ 0</u>	<u>\$ 1,031,864</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

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Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Grants Receipts Received, But Not Yet Utilized	\$ 0	\$ 15,000
Total Deferred/Unearned Revenue for Governmental Funds	\$ 0	\$ 15,000

C. Capital Assets

A summary of changes in the District's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital Assets, not being depreciated	\$ 92,210	\$ 0	\$ 0	\$ 92,210
Capital Assets being depreciated				
Buildings and improvements	\$ 5,357,704	\$ 0	\$ 0	\$ 5,357,704
Improvements other than buildings	563,924	5,109	18,075	550,958
Furniture and equipment	526,545	7,000	0	533,545
Transportation equipment	957,313	31,400	0	988,713
Subtotal	\$ 7,405,486	\$ 43,509	\$ 18,075	\$ 7,430,920
Less accumulated depreciation for:				
Buildings and improvements	\$ 2,926,181	\$ 100,554	\$ 0	\$ 3,026,735
Improvements other than buildings	137,418	34,200	2,712	168,906
Furniture and equipment	312,400	47,708	0	360,108
Transportation equipment	571,731	72,844	0	644,575
Accumulated depreciation	\$ 3,947,730	\$ 255,306	\$ 2,712	\$ 4,200,324
Net Capital Assets being depreciated	\$ 3,457,756	\$ (211,797)	\$ 15,363	\$ 3,230,596
Net Capital Assets	\$ 3,549,966	\$ (211,797)	\$ 15,363	\$ 3,322,806

Depreciation for the fiscal year ended June 30, 2006 amounted to \$255,306. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

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D. Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of the long-term debt transactions for the School District for the year ended June 30, 2006:

	ACCUMULATED SICK LEAVE BONDS TOTAL		
Balance, July 1, 2005	\$ 398,645	\$ 1,789,743	\$ 2,188,388
Additions	0	0	0
Deletions	(47,608)	(266,042)	(313,650)
Balance, June 30, 2006	\$ 351,037	\$ 1,523,701	\$ 1,874,738
Less current portion	0	(298,870)	(298,870)
Total due after one year	\$ 351,037	\$ 1,224,831	\$ 1,575,868

At June 30, 2006, the School District's long-term debt consisted of the following:

2006 Refunding Bonds; due in annual installments of \$145,000 to \$170,000 through May 1, 2013; interest rate of 3.00% to 3.50%	\$ 1,110,000
2000 Energy Conservation Improvement Bonds; due in annual installments of \$45,000 through May 1, 2010; interest rate of 3.00% to 6.00%.	180,000
2003 Energy Conservation Improvement Bonds; due in annual installments of \$80,000 through May 1, 2008; interest rate of 2.00%	160,000
1998 School Improvement Bond (Durant); due in installments of \$6,630 to \$28,870 through May 1, 2013; average interest rate of 4.76%. This debt will Be repaid using revenues provided by the State of Michigan specifically for This purpose. If the Michigan Legislature fails to appropriate funds, the School District is not liable for repayment of these bonds.	<u>73,701</u>
Total Bonds Payable	1,523,701
Unamortized Refinancing Costs	(60,049)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Accumulated Sick Leave	<u>351,037</u>
Total Long-Term Debt	<u>\$ 1,814,689</u>

The annual requirements to amortize all debt outstanding as of June 30, 2006, including interest payments of \$201,201 are as follows:

YEAR ENDING JUNE 30,	Principal	Interest	Amounts Payable
2007	\$ 298,870	\$ 61,286	\$ 360,156
2008	281,631	42,574	324,205
2009	206,947	33,531	240,478
2010	212,277	26,301	238,578
2011	167,624	18,481	186,105
2012-2013	356,352	19,028	375,380
	<u>1,523,701</u>	<u>201,201</u>	<u>1,724,902</u>
Accumulated Sick Leave	351,037	0	351,037
	<u>\$ 1,874,738</u>	<u>\$ 201,201</u>	<u>\$ 2,075,939</u>

The annual requirements to amortize the accrued sick leave is uncertain because it is unknown when the repayments will be made.

E. Interfund Receivables, Payables, and Transfers

Outstanding balances between funds reported as “due to/from other funds” include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year end, and other miscellaneous receivables/payables between funds.

	INTERFUND RECEIVABLES	INTERFUND PAYABLES
General Fund	\$ 13,554	\$ 315
Food Service Fund	0	13,554
2005 Refunding Bond Fund	315	0
	<u>\$ 13,869</u>	<u>\$ 13,869</u>

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

	TRANSFERS IN	TRANSFERS OUT
General Fund	\$ 0	\$ 127,091
School Service Fund - Athletics	127,091	0
1993 Refunding Debt Fund	0	23
1995 Refunding Debt Fund	0	7
2005 Refunding Debt Fund	30	0
	<u>\$ 127,121</u>	<u>\$ 127,121</u>

F. Short-Term Debt

The District borrowed through a State Aid Note \$950,000 plus interest at 2.87%. This note has a balance of \$126,687 as of June 30, 2006 and was due in July 2006. The District will be borrowing an additional \$1,100,000 at 3.68% due August 20, 2007.

NOTE 4 - OTHER INFORMATION

A. Employee Retirement System

Plan Description. The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the nine member board of MPSERS. The MPSERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPSERS was established by Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909 or by calling (517) 322-5103.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to

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member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006, were 14.87% of payroll through September 30, 2005, and 16.34% effective October 1, 2005. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were \$677,567, \$579,161 and \$508,275 respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post Employment Benefits Funding Policy

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

B. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

C. Durant Settlement

As a result of the Durant v State of Michigan settlement regarding State underfunding of school revenues, the School District will be receiving \$12,482 per year over a ten-year period beginning November 15, 1998. This represents 50% of the expected funds. For the remaining 50% of the funds from this settlement, or \$124,819, the School District has opted to participate in a bonding program enabling it to receive a lump-sum payment on November 15, 1998. The debt will be repaid over a 15-year period beginning May 15, 1999 using revenues provided by the State specifically for this purpose. Settlement proceeds are restricted for use on school buses, electronic instructional material

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JUNE 30, 2006

and software, school security, textbooks, technology, infrastructure or infrastructure improvement, training for technology, or to reduce or eliminate voter-approved debt issued prior to November 19, 1997.

As part of the Executive Budget Recommendation for fiscal year 2004, the State refunded the bonds. The refunding changes the payment schedule without changing the total payments. There were no debt service payments for fiscal years 2004 and 2005 and payments have resumed in 2006.

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Local and Intermediate Sources	\$ 987,517	\$ 1,093,505	\$ 1,111,612
State Sources	5,682,780	5,687,598	5,704,555
Federal Sources	330,346	378,423	356,675
Total Revenues	7,000,643	7,159,526	7,172,842
<u>EXPENDITURES</u>			
Instruction	4,604,278	4,642,380	4,610,121
Supporting Services	2,221,252	2,257,052	2,281,469
Community Services	47,567	47,567	47,543
Debt Services	120,000	120,000	136,438
Total Expenditures	6,993,097	7,066,999	7,075,571
Excess (Deficiency) of Revenues Over Expenditures	7,546	92,527	97,271
<u>OTHER FINANCIAL SOURCES (USES)</u>			
Transfers Out	(132,992)	(140,191)	(127,091)
Net Change in Fund Balance	(125,446)	(47,664)	(29,820)
<u>FUND BALANCE</u> - Beginning of Year	824,000	837,120	837,120
<u>FUND BALANCE</u> - End of Year	\$ 698,554	\$ 789,456	\$ 807,300

FOREST AREA COMMUNITY SCHOOLS
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COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	<u>SPECIAL REVENUE FUNDS</u>		<u>DEBT SERVICE FUNDS</u>				<u>CAPITAL PROJECTS FUND</u>	<u>TOTAL NON-MAJOR GOVERNMENTAL</u>
	<u>FOOD SERVICE</u>	<u>ATHLETICS</u>	<u>1993</u>	<u>1995</u>	<u>1998</u>	<u>2005</u>		
			<u>REFUNDING BOND</u>	<u>REFUNDING BOND</u>	<u>DURANT BOND</u>	<u>REFUNDING BOND</u>		
<u>ASSETS</u>								
Cash	\$ 90	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 90
Due from Other Funds	0	0	0	0	0	315	0	315
Inventory	6,367	0	0	0	0	0	0	6,367
Investments	80,833	0	0	0	0	71,567	18,857	171,257
Total Assets	<u>\$ 87,290</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 71,882</u>	<u>\$ 18,857</u>	<u>\$ 178,029</u>
<u>LIABILITIES AND FUND BALANCES</u>								
<u>LIABILITIES</u>								
Due to Other Funds	<u>\$ 13,554</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,554</u>
<u>FUND BALANCES</u>								
Reserved for Debt Retirement	0	0	0	0	0	71,882	0	71,882
Reserved for Inventory	6,367	0	0	0	0	0	0	6,367
Unreserved, Designated for:								
Food Service	67,369	0	0	0	0	0	0	67,369
Capital Projects	0	0	0	0	0	0	18,857	18,857
Total Fund Balances	<u>73,736</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>71,882</u>	<u>18,857</u>	<u>164,475</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 87,290</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 71,882</u>	<u>\$ 18,857</u>	<u>\$ 178,029</u>

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

COMBINING STATEMENT OF REVENUES EXPENDITURES
AND CHANGES IN FUND BALANCES
NON MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUNDS			DEBT SERVICE FUNDS					CAPITAL PROJECTS FUND	TOTAL NON-MAJOR GOVERNMENTAL
	FOOD SERVICE	ATHLETICS	TOTAL	1993 REFUNDING BOND	1995 REFUNDING BOND	1998 DURANT BOND	2005 REFUNDING BOND	TOTAL		
REVENUES										
Property Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 208,084	\$ 208,084	\$ 0	\$ 208,084
Interest	3,048	0	3,048	0	0	0	3,190	3,190	1,361	7,599
State Sources	16,547	0	16,547	0	0	8,765	0	8,765	0	25,312
Federal Sources	256,128	0	256,128	0	0	0	0	0	0	256,128
Other	91,438	13,054	104,492	0	0	0	0	0	0	104,492
Total Revenues	367,161	13,054	380,215	0	0	8,765	211,274	220,039	1,361	601,615
EXPENDITURES										
Food Service	368,445	0	368,445	0	0	0	0	0	0	368,445
Athletic	0	140,145	140,145	0	0	0	0	0	0	140,145
Debt Service										
Principal	0	0	0	0	0	6,042	140,000	146,042	0	146,042
Interest	0	0	0	0	0	2,723	46,944	49,667	0	49,667
Other	0	0	0	0	0	0	645	645	0	645
Capital Outlay	4,045	0	4,045	0	0	0	0	0	81,304	85,349
Total Expenditures	372,490	140,145	512,635	0	0	8,765	187,589	196,354	81,304	790,293
Excess (Deficiency) of Revenues Over Expenditures	(5,329)	(127,091)	(132,420)	0	0	0	23,685	23,685	(79,943)	(188,678)
OTHER FINANCING SOURCES (USES)										
Transfers In	0	127,091	127,091	0	0	0	30	30	0	127,121
Transfers Out	0	0	0	(23)	(7)	0	0	(30)	0	(30)
Total Other Financing Sources (Uses)	0	127,091	127,091	(23)	(7)	0	30	0	0	127,091
Net Change in Fund Balance	(5,329)	0	(5,329)	(23)	(7)	0	23,715	23,685	(79,943)	(61,587)
FUND BALANCE - Beginning of Year	79,065	0	79,065	23	7	0	48,167	\$ 48,197	\$ 98,800	\$ 226,062
FUND BALANCE - End of Year	\$ 73,736	\$ 0	\$ 73,736	\$ 0	\$ 0	\$ 0	\$ 71,882	\$ 71,882	\$ 18,857	\$ 164,475

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CERTIFIED PUBLIC ACCOUNTANTS

August 9, 2006

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Forest Area Community Schools
Fife Lake, Michigan

COMPLIANCE

We have audited the compliance of Forest Area Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Forest Area Community Schools major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Forest Area Community Schools' management. Our responsibility is to express an opinion on Forest Area Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Forest Area Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Forest Area Community Schools' compliance with those requirements.

In our opinion, Forest Area Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2006 B.

INTERNAL CONTROL OVER COMPLIANCE

The management of Forest Area Community Schools' is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Forest Area Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2006	ADJUSTMENTS
U.S. Department of Education								
Passed Through Michigan Department of Education (M.D.E.)								
ESEA Title I - Part A								
Project No. 051530-0506	84.010	\$ 31,859	\$ 0	\$ 0	\$ 31,859	\$ 31,859	\$ 0	0
Project No. 061530-0506	84.010	222,363	0	0	197,100	197,100	0	0
Project No. 051530-0405	84.010	181,104	(20,000)	161,104	20,000	0	0	
Total	84.010	\$ 435,326	\$ (20,000)	161,104	248,959	228,959	0	0
Title V LEA Allocation								
Project No. 060250-0506	84.298	\$ 3,776	\$ 0	\$ 0	\$ 3,776	\$ 3,776	\$ 0	0
Handicapped Preschool and School								
Project No. 060440 SPSR	84.027	\$ 2,240	\$ 0	\$ 0	\$ 2,240	\$ 2,240	\$ 0	0
Title II D Technology Literacy Challenge								
Project No. 064290-0506	84.318	\$ 4,148	\$ 0	\$ 0	\$ 4,148	\$ 4,148	\$ 0	0
Title II A - Improving Teacher Quality								
Project No. 060520-0506	84.367	\$ 60,528	\$ 0	\$ 0	\$ 60,528	\$ 60,528	\$ 0	0
Total Passed Through M.D.E.		\$ 506,018	\$ (20,000)	\$ 161,104	\$ 319,651	\$ 299,651	\$ 0	0
Passed Through Traverse Bay Area Intermediate School District (I.S.D.)								
IDEA Flowthrough								
Project No. 050450-0405	84.027A	\$ 1,050	\$ 0	\$ 0	\$ 1,050	\$ 1,050	\$ 0	0
Drug Free Formula								
Project No. 062860-0506	84.186	\$ 1,542	\$ 0	\$ 0	\$ 1,542	\$ 1,542	\$ 0	0
PreSchool Grant								
Project No. 060460-0506	84.173A	\$ 10,387	\$ 0	\$ 0	\$ 10,387	\$ 10,387	\$ 0	0
Transition Grant								
Project No. 050490 TS	84.027	\$ 2,045	\$ 0	\$ 0	\$ 2,045	\$ 2,045	\$ 0	0
Total Passed Through Traverse Bay ISD		\$ 15,024	\$ 0	\$ 0	\$ 15,024	\$ 15,024	\$ 0	0
Indian Education -Grants to Local Education								
Project No. B06A050634	84.060A	\$ 16,665	\$ 0	\$ 0	\$ 16,665	\$ 16,665	\$ 0	0
Total U.S. Department of Education		\$ 537,707	\$ (20,000)	\$ 161,104	\$ 351,340	\$ 331,340	\$ 0	0

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2006	ADJUSTMENTS
U.S Department of Agriculture								
Passed Through Michigan Department of Education								
Child Nutrition Cluster								
National School Lunch								
Section 4 - Total Servings - 051950 and 061950	10.555	\$ 25,888	\$ 0	\$ 0	\$ 25,888	\$ 25,888	\$ 0	\$ 0
Section 11 - Total Servings - 051960 and 061960	10.555	140,901	0	0	140,901	140,901	0	0
Total	10.555	<u>\$ 166,789</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 166,789</u>	<u>\$ 166,789</u>	<u>\$ 0</u>	<u>\$ 0</u>
National School Lunch - Breakfast								
Breakfast - 051970 and 061970	10.553	<u>\$ 64,767</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 64,767</u>	<u>\$ 64,767</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Child Nutrition Cluster		<u>\$ 231,556</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 231,556</u>	<u>\$ 231,556</u>	<u>\$ 0</u>	<u>\$ 0</u>
Food Distribution								
Entitlement Commodities	10.550	\$ 18,599	\$ 0	\$ 0	\$ 18,599	\$ 18,599	\$ 0	\$ 0
Bonus Commodities	10.550	5,973	0	0	5,973	5,973	0	0
Total	10.550	<u>\$ 24,572</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 24,572</u>	<u>\$ 24,572</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Passed Through M.D.E.		<u>\$ 256,128</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 256,128</u>	<u>\$ 256,128</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total U.S. Department of Agriculture		<u>\$ 256,128</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 256,128</u>	<u>\$ 256,128</u>	<u>\$ 0</u>	<u>\$ 0</u>
U.S. Department of Homeland Security								
Passed Through Michigan State Police, Emergency Management Division								
2003 State Homeland Security Grant Program, Part II Equipment	97.004	<u>\$ 5,335</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,335</u>	<u>\$ 5,335</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Federal Financial Assistance		<u><u>\$ 799,170</u></u>	<u><u>(20,000)</u></u>	<u><u>161,104</u></u>	<u><u>612,803</u></u>	<u><u>592,803</u></u>	<u><u>0</u></u>	<u><u>0</u></u>
					(B)	(C)	(D)	

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(A) Significant Accounting Policies Used in Preparing Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting and presents transactions in the same manner as reflected in the basic financial statements of the school district. The significant accounting policies used are described in footnote (1) to the June 30, 2006, basic financial statements.

(B) Reconciliation of Revenues with Expenditures for Federal Financial Assistance Programs

Federal Revenues from Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balance	\$ <u>612,803</u>
Federal Expenditures per Schedule of Expenditures of Federal Awards	\$ <u>612,803</u>

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(C) Reconciliation of Grant Section Auditor's Report with Schedule of Expenditures of Federal Awards

Management has utilized the Grant Section Auditor's Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.

Current Cash Payments per Grant Section Auditor's Report Dated July 7, 2006		\$ 534,221
Add Items Not on Grant Section Auditor's Report:		
Amounts Received as Pass Through from Intermediate School District		
Drug Free Grant	\$ 1,542	
IDEA Transition Grant	2,045	
IDEA Flowthrough Grant	1,050	
Preschool Grant	10,387	
Amounts Received as Pass Through from Michigan State Police,		
Homeland Security Grant	5,335	
Amounts Received from U.S. Department of Education Indian Education	16,665	
Amounts Received as Payments in Kind Food Distribution Program		
Entitlement Commodities	<u>24,572</u>	61,596
Less Non-Federal Payments Reported on the Grant Section Auditor's Report:		
School Breakfast Program - State Funds		<u>(3,014)</u>
Current Year Receipts (Cash Basis) per Schedule of Expenditures of Federal Awards		\$ <u><u>592,803</u></u>

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CERTIFIED PUBLIC ACCOUNTANTS

August 9, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Forest Area Community Schools
Fife Lake, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Forest Area Community Schools as of and for the year ended June 30, 2006, which collectively comprise the Forest Area Community Schools basic financial statements and have issued our report thereon dated August 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Forest Area Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely effect Forest Area Community Schools' ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-A.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described in 2006-A not to be a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Forest Area Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

No findings.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

A. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unqualified	
Material weakness(es) identified:	<u> </u> Yes	<u> X </u> No
Reportable condition(s) identified that are not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified:	<u> </u> Yes	<u> X </u> No
Reportable condition(s) identified that are not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u> No
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133?	<u> X </u> Yes	<u> </u> No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I - Improving Basic Programs
84.367	Title II A - Improving Teaching Quality

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

B. Findings and Questioned Costs – Basic Financial Statements Audit

2006 – A

Reportable Condition:

The relatively small number of people involved in the accounting functions of the District make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The reportable condition noted above was not considered to be a material weakness.

Corrective Action Plan

Inadequate segregation of duties.

With the status of state funding, the District is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Procedures for improvement will continue to be examined and, if practical implemented.

C. Findings and Questioned Costs - Major Federal Award Programs Audit

Questioned
Costs

N/A

2006-B

Title 1 - CFDA No. 84.010
Reading First State Grants - CFDA No. 84.357
Passed Through Michigan Department of Education
Project No. - All Projects
Grant Period July 1, 2005 to June 30, 2006

Statement of Condition:

The District did not comply with OMB Circular A-87 regarding federal timekeeping requirements.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Criteria:

“Time/salaries spent working on federal programs must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B, Item 8h. Acceptable methods for co-funded staff include written schedules if they are documented by personnel activity reports (PARs) confirming that the schedules were followed (e.g., directors, secretaries, counselors). The PARs must be prepared at least monthly, be signed and dated by the employee, and account for the staff person’s total activity. Time sheets and other records should be completed after-the-fact. Employees should never guess the amount of hours they will spend on federal programs before work is actually performed.”

“Instructional staff may use their lesson plans to confirm that their written schedules were followed if: (1) after-the-fact notes are made on those plans to indicate the completion of each scheduled activity; (2) the lesson plans account for the total time the employee is compensated; (3) the lesson plans are prepared at least monthly and coincide with one or more pay periods; and (4) the completed lesson plans are signed by the employee. If a district elects to use this method, it must retain the lesson plans as timekeeping records.”

“Para professionals may use their regular time sheets as long as they; 9a) reflect an after the fact distribution of their actual activity, (b) account for the total activity for which they are compensated, showing the hours or percentages for the programs they worked on, (c) are prepared at least monthly and coincide with one or more pay periods, and (d) are signed by the employee.”

“OMB Circular A-87 requires that when employees are expected to work solely on a single federal award or cost objective, charges for their salaries will be supported by periodic certifications that the employees worked solely on that program for the semi-annual period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or a supervisor with first-hand knowledge of the work performed by the employee. If a supervisor has first-hand knowledge of work performed by several employees each working on a single cost objective, the supervisor can use a blanket certification that lists all of the employees, the program that they worked on and the period covered. One supervisory signature would be adequate.”

Effect:

Without the required certifications and timekeeping support, the District has increased the risk that federal funds may be expended on non-federal expenditures. We however, did not note any unallowable expenditures of this type occurring.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Cause:

The District was not aware of the requirements to obtain the required timekeeping documents on federal funded positions.

Auditor Recommendation:

The District should obtain the required certifications set forth by OMB Circular A-87.

District Response:

The District will immediately begin to comply with this requirement.

Corrective Action Plan:

The District was not aware of this requirement and will immediately comply with it
By keeping the required timekeeping documents and obtaining necessary certifications.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

August 9, 2006

Board of Education
Forest Area Community Schools
Fife Lake, Michigan

Dear Members of the Board and Administrators:

We have completed our audit of the financial statements of the Forest Area Community Schools as of and for the fiscal year ended June 30, 2006, and we would like to take this opportunity to comment on the following items relative to the management and accounting procedures of the School District:

Changes to Employer 403(b) Plans

The Internal Revenue Service recently issued new regulations under Internal Revenue Code Section 403(b) which contains a series of provisions that will need to be a source of consideration for the District since it currently participates in allowing employees the option to defer a portion of their salaries and wages annually. These new regulations are effective January 1, 2007.

These new proposed regulations contain significant changes in the manner in which 403(b) Plans are administered and mandate additional requirements for the school district to implement if the 403(b) Plan is to qualify under the new IRS regulations. These new regulations place direct accountability on the school district for the program and give the district the discretion and authority to choose the benefit options of the plan.

Plan Document Required

The new regulations will now require a formal written plan document. This plan document must include all material provisions regarding eligibility, benefits, applicable contribution limits, a description of available contracts provided under the plan, loan procedures and provisions, hardship distributions and the time and form of any other distribution to be made from the plan as well as any other terms and conditions applicable to the plan.

Investment Options

All contracts (i.e. annuities) and custodial accounts (i.e. mutual funds) available under the plan must be described within the plan. School Districts will be required to maintain a current list of all providers authorized to provide products to employees as part of the plan. Thus, the District controls the authorization process.

Meaningful Notice of the Plan

The regulations require employers to give their employees "meaningful notice" of their rights to participate in a 403(b) program and must provide an effective opportunity to make or to change an elective deferral election.

Deposit Requirements

The proposed regulations establish requirements that employers must transmit the employee's salary reduction contributions as soon as practicable but no later than the 15th business day of the month following the date on which the amounts would have been paid to the employee.

These are just a few of requirements set forth under this new regulation. We recommend that the District become aware of the provisions under these regulations as you work on implementing or modifying your current plan document so that you can be in compliance when they become effective.

Budgeting

The District currently does an excellent job formulating and monitoring the annual budget function. The Michigan Department of Education is working towards various policy adjustments in regards to budget violations and are considering retroactive implementation of these policies to the 2004-2005 and the 2005-2006 fiscal years.

Specifically, the Department will be focusing on a couple of significant areas as it relates to the General Fund.

1. Total Expenditure violations that exceed 1% of the Total Expenditures budget.
2. Total Other Financing Uses violations that exceed 1% of the Total Other Financing Uses budget.

A budget violation would include incurring expenditures in excess of the approved appropriation, ending the fiscal year with a deficit fund balance or adopting a budget that would result in a deficit fund balance.

The Department is also considering that a violation for the 2005-2006 fiscal year may also include a situation where the District did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved.

These proposed policy adjustments will place a renewed importance on the need to monitor the budget process very closely.

We recommend the District review the 2006-2007 budget to make sure that actual revenues will be greater than budgeted revenues, that actual expenditures by function will not be greater than appropriated and that a negative fund balance is not budgeted.

In addition, the conference agreement relative to the 2006-2007 state school aid act reached July 12, 2006 includes a provision that will require the District to begin posting the annual operating budget as well subsequent budget amendments on the website for the District. It is expected that this requirement will become effective October 1, 2006. As a result, the District should begin preparing to meet this new requirement.

Condition of Accounting Records

The accounting records presented for our examination were found to be in excellent condition. We commend and appreciate the efforts of the business manager for a job well done.

We sincerely thank the Board for awarding this firm the audit assignment of the District, and the administration and staff for their cooperative spirit and assistance in helping us fulfill this audit engagement. The friendly, cooperative and enthusiastic response to our requests for data, facts and figures is very much appreciated and enhances the efficiency of the audit process. If you have any questions relative to the preceding comments and recommendations or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

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